PRICING MATH

CHAPTER 27

Ch 27 Sec 2 – Calculating Discounts

What you'll learn . . .

- The general procedure for figuring discounts
- How to calculate various kinds of discounts

CALCULATING DISCOUNTS

- Discounts are reductions in the price of goods and services sold to customer.
  - Multiply the price (P) by the discount percentage D(%) to get the dollar amount of the discount D($).
  - Subtract the discount from the price to get the net price (NP)

EMPLOYEE DISCOUNTS

- Discounts offered to employees to encourage workers to buy the products they sell or manufacture.
- Can range from 10% to 30% or entry-level employee up to 50% or more for top-level executives.

DISCOUNTS FROM VENDORS

- Cash
- Trade
- Quantity
- Seasonal
- Promotional

CASH

- Given to customers who pay in cash.
- Invoice terms 3/15, net 60
  - 3 is the percent of discount
  - 15 is the days from the date on the invoice to get the discount
  - 60 is the number of days from the date on the invoice that the payment in full is due.
- Determine the dollar discount P X D(%) = D($)
- Determine net price P – D($) = NP

Practice 1

- Big Jim's Trucking receives an invoice in the amount of $175,000 showing the terms 2/10, net 30. If Big Jim's takes advantage of the discount, what will be the net amount due on the invoice?
  - $175,000 X .02 = 3500
  - $175,000 – 3500 = $171,500

TRADE DISCOUNTS

- Based on manufacturers' list prices -- not really discounts at all, but the way prices are quoted to wholesalers and retailers.
  - Determine the dollar discount P X D(%) = D($)
  - Determine net price P – D($) = NP

Practice 2

- A manufacturer gives retailers a 45-percent trade discount. The invoice received by ABC Department Store totals $235,795; what is the amount of the store's discount? What is the amount payable to the manufacturer?
  - $235,795 X .45 = $106,107.75 (discount)
  - $235,795 – 106,107.75 = $129,685.25 (amount payable)

QUANTITY DISCOUNTS

- Offered to customers ordering large quantities.
  - P X D(%) = D($)
  - P – D($) = NP

Practice 3

- Suppose a firm is required to buy $10,000 worth of goods by August 15 in order to qualify for a 10-percent cumulative quantity discount. Would a firm that purchased $5,000 worth of goods on August 1 get the discount? What about one that purchased $10,500 worth on August 20?
  - No, because the minimum quantity is $10,000.
  - No, because the deadline date was August 15.

PROMOTIONAL DISCOUNTS

- Given to businesses that agree to advertise or in some other way promote a manufacturer's products.
  - Divide the dollar discount by the original price.
    - D($) / P = D(%).
    - Change the decimal to a percentage by shifting the decimal two places to the right.

Practice 4

- A manufacturer offers a retailer $750 as a promotional discount for advertising a certain product. What is the percentage discount if the total invoice was $37,500?
  - $750 / $37,500 = .02 (2 percent)

SEASONAL DISCOUNTS

- Offered to encourage buyers to purchase goods long before the actual consumer buying season.
  - P x D(%) = D($)
  - P – D($) = NP

Practice 5

- Pedzinger Shoe Company offers retailers a 5-percent discount for placing orders by June 1. A retailer takes advantage of the offer and purchases $78,290 worth of shoes by the cutoff date. What is the net amount payable on the invoice?
  - $78,290 X .95 = $74,375.50